

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 1999-077-E - ORDER NO. 1999-508
JULY 16, 1999

IN RE:	Application of Carolina Power & Light	)	ORDER APPROVING
	Company and North Carolina Natural Gas	)	MERGER AND
	Company to Engage in a Business	)	ISSUANCE OF
	Combination Transaction and to Allow	)	SECURITIES
	Carolina Power & Light Company to Issue)	
	Securities in Connection with such)	
	Transaction.)	

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Carolina Power & Light Company (CP&L) and North Carolina Natural Gas Company (NCNG) to engage in a business combination transaction and to allow CP&L to issue securities in connection with such transaction. The Application was filed pursuant to S.C. Code Ann. Sections 58-27-1300 (Supp. 1998), and Sections 58-27-1710, 58-27-1720, and 58-27-1730 (1976). In concert with the business combination, CP&L seeks authorization to issue up to 9,000,000 shares of its common stock without par value. The Application provides that NCNG is a local distribution natural gas public utility doing business in North Carolina furnishing natural gas, propane, and natural gas transportation services to approximately 173,000 customers in south-central and eastern North Carolina. At closing, NCNG will become a wholly owned subsidiary of CP&L and will continue to own all of its pre-acquisition assets and all of its liabilities.

Pursuant to the instructions of the Commission's Executive Director, a Notice of Filing was published in newspapers of general circulation in the Companies' service area, one time. Proof of service has been furnished to this Commission. The Consumer Advocate for the State of South Carolina (the Consumer Advocate) filed a Petition to Intervene in the matter. However, the Consumer Advocate and CP&L later filed a Joint Stipulation and moved for approval of the business combination. CP&L also filed a Motion for Expedited Review of this matter and verified testimony to support the motion and approval of the relief sought by the original Application.

We grant the Motion for Expedited Review and herein examine the prefiled verified testimony of Bonnie Hancock. Hancock testified that CP&L and NCNG have structured the transaction as a merger of a new Delaware subsidiary of CP&L into NCNG. CP&L common stock will be issued to the NCNG stockholders in exchange for their NCNG stock, with an exchange ratio of not less than 0.7032 nor more than 0.8594 shares of CP&L common stock for each outstanding share of NCNG common stock at the effective date of the transaction. The actual exchange ratio will be determined by dividing \$35 by the average closing price of CP&L's common stock during the 20 trading days prior to and including the fifth trading day prior to the closing of the transaction. A total of up to approximately 9 million shares of CP&L common stock would be issued and reserved in connection with the transaction. The result is that NCNG will become a wholly-owned subsidiary of CP&L and the former NCNG shareholders will become shareholders of CP&L.

According to Hancock, there are two basic reasons that CP&L wishes to merge with NCNG. First, natural gas has become the fuel of choice for electric generation. CP&L's service territory is projected to experience substantial load growth over the next ten years, according to Hancock, therefore requiring the construction of new generating facilities, all of which are currently planned to be fueled by natural gas. CP&L also has existing natural gas-fired generators, which will be used a greater percentage of the time. More gas procurement will be necessary. CP&L wishes to "control its own destiny" in securing gas supply for its generation needs. Hancock states that the merger with NCNG allows CP&L to have access to the gas company's natural gas procurement and transportation experience and skills. Also by merging with NCNG, CP&L will have greater input into the expansion of natural gas transmission lines in eastern North Carolina in order to serve new generating facilities. The second benefit of the merger according to Hancock is that CP&L will now have the ability to offer natural gas to most of its non-residential electric customers, thus satisfying total energy needs. The two companies have developed a list of Regulatory Conditions to which the companies will adhere to ensure that there will be no rate increases as a result of the merger. We note that CP&L and the Consumer Advocate have agreed upon a revised Code of Conduct and Regulatory Conditions for adoption by this Commission, which we will address at a later point in this Order.

With regard to the capitalization of CP&L, the only apparent effect is to increase common equity by approximately 9 million shares, or \$354 million and long-term debt by \$81 million (excluding current maturities). This increases the common equity component

of the capital structure from 53.3% to 55.3%. The CP&L long-term debt includes \$412.3 million of commercial paper reclassified as long-term debt for financial reporting purposes. Although NCNG's debt will be reflected on CP&L's consolidated balance sheet, NCNG's debt will remain the obligation of NCNG without any guarantees of such debt from CP&L, according to Hancock.

Also according to Hancock, an examination of the financial data available shows that the merger will not have any adverse effect on reliable service to the South Carolina retail customer, nor will it affect CP&L's South Carolina retail electric rates. Hancock opines that the merger will make CP&L a more diverse and financially strong company.

We note that CP&L and the Consumer Advocate have entered into a Joint Stipulation, wherein the two parties agree to modify the originally proposed Code of Conduct and Regulatory Conditions. The Consumer Advocate states that it does not oppose the merger of CP&L and NCNG provided, as a condition of the merger, that this Commission adopts and approves the revised Code of Conduct and Regulatory Conditions. CP&L and NCNG agree to be bound by the revised Code of Conduct and Regulatory Conditions. Accordingly, CP&L and the Consumer Advocate have moved the Commission to adopt and approve the revised Code of Conduct and Regulatory Conditions attached to the Stipulation, and to approve CP&L's application to merge with NCNG and to issue up to 9 million shares of CP&L Common Stock to accomplish such merger.

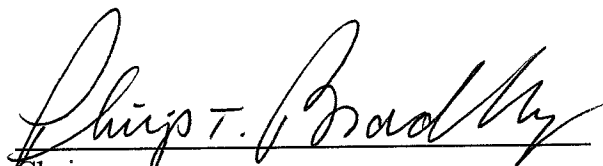
We hereby approve the Joint Stipulation and approve the modified Code of Conduct and Regulatory Conditions. These are attached hereto as Exhibit A. We also

grant the joint motion of CP&L and the Consumer Advocate, and approve CP&L's Application to merge with NCNG, and to issue up to 9 million shares of CP&L Common Stock to accomplish the merger. We believe that the testimony of Bonnie Hancock as quoted above supports these actions.

Clearly, the merger is in the public interest. With CP&L's projected growth, it will need greater access to natural gas supplies, especially with its plan to add gas-fired generation plants and to increase use of its present gas-fired plants. We think that the merger strengthens the capital structure of CP&L, since it actually increases the percentage of common equity. Further, through the merger, CP&L will be able to offer gas to most of its non-residential electric customers, thus satisfying total energy needs. We also hold that CP&L may issue up to 9 million shares of CP&L Common Stock to accomplish the merger. However, we also hold that this Order shall not in any way dictate the ratemaking treatment of this transaction by this Commission.

This Order shall remain in full force and effect until further Order of the
Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 1999-077-E

Application of Carolina Power & Light	)	JOINT STIPULATION BETWEEN
Company and North Carolina Natural Gas	)	CAROLINA POWER & LIGHT
Company to Engage in a Business Combination	)	COMPANY AND THE SOUTH
Transaction and to Allow Carolina Power &	)	CAROLINA CONSUMER
Light Company to Issue Securities in Connection	)	ADVOCATE AND MOTION FOR
With Such Transaction	)	APPROVAL OF BUSINESS
	)	COMBINATION

Pursuant to South Carolina Public Service Commission ("the Commission") Rules 103-830 and 103-840, Carolina Power & Light Company ("CP&L") and the South Carolina Consumer Advocate ("Consumer Advocate") submit this joint stipulation and motion for approval of the merger of CP&L and North Carolina Natural Gas Corporation ("NCNG"). In support thereof the movants show the following:

1. On February 9, 1999, CP&L filed with the Commission an Application to Engage in a Business Combination Transaction with NCNG and to issue up to 9 million shares of its common stock without par value in connection with such transaction.

2. On March 15, 1999, the Commission instructed CP&L to publish notice of the filing and to submit proof of publication. The notice required all interested parties to intervene by April 30, 1999. CP&L properly published the notice and only one party, the South Carolina Consumer Advocate, filed a petition to intervene.

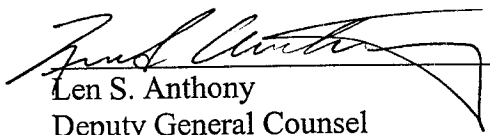
3. On June 22, 1999, CP&L filed a motion for expedited review and the verified testimony of CP&L witness Bonnie Hancock. Attached to the verified testimony of witness Hancock was a proposed Code of Conduct and set of Regulatory Conditions.

4. Following the filing of CP&L's motion for expedited review and the verified testimony of Bonnie Hancock, CP&L and the Consumer Advocate entered into negotiations to address the Consumer Advocate's concerns with the merger of CP&L and NCNG. As a result of these negotiations, CP&L and the Consumer Advocate have agreed to make certain revisions to the Code of Conduct and Regulatory Conditions. The revised Code of Conduct and Regulatory Conditions are attached to this pleading as Exhibits 1 and 2, respectively. The Consumer Advocate does not oppose the merger of CP&L and NCNG provided, as a condition of the merger, the Commission adopts and approves the revised Code of Conduct and Regulatory Conditions. CP&L and NCNG agree to be bound by the revised Code of Conduct and Regulatory Conditions.

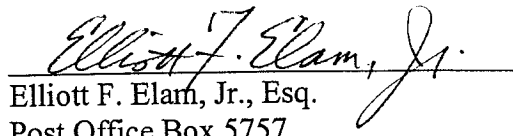
WHEREFORE, CP&L and the Consumer Advocate move the Commission to adopt and approve the revised Code of Conduct and Regulatory Conditions attached hereto and the approve CP&L's application to merge with NCNG and to issue up to 9 million shares of CP&L Common Stock to accomplish such merger.

Respectfully submitted, this the 8th day of July, 1999.

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**INITIAL CODE OF CONDUCT GOVERNING
THE RELATIONSHIP AMONG
CAROLINA POWER & LIGHT COMPANY
NORTH CAROLINA NATURAL GAS CORPORATION
THEIR AFFILIATES AND
THEIR NONPUBLIC UTILITY OPERATIONS
AND SOUTH CAROLINA REGULATORY CONDITIONS THAT MUST BE IMPOSED
FOR THE MERGER AND STOCK ISSUANCE TO BE APPROVED**

I. Definitions

For purposes of this Code of Conduct, the terms listed below shall have the following definitions:

Affiliate: Any company or subsidiary, ten percent (10%) or more of the outstanding voting securities of which are owned, controlled, or held with power to vote, directly or indirectly, by Carolina Power & Light Company.

Commission: The South Carolina Public Service Commission.

CP&L: The public utility operations of Carolina Power & Light Company as defined in S.C. Code Ann. § 58-27-10.

Consumer Advocate: The Consumer Advocate for the State of South Carolina.

Customer: Any retail electric customer of CP&L located within CP&L's electric service territory and any natural gas sales or natural gas transportation customer of NCNG located within NCNG's franchised service area.

Customer Information: Any and all customer specific information obtained by CP&L and/or NCNG.

Electric Services: Commission-regulated electric energy sales, generation, transmission, distribution and/or delivery, and other related services, including but not limited to, metering and billing.

Fully Distributed Costs: All direct and indirect costs, including overheads and the cost of capital, incurred in providing the goods and services in question.

Gas Marketing Affiliate: An affiliate or nonpublic utility operation of NCNG or CP&L engaged in the unregulated sale, arrangement, brokering or management of gas supply, pipeline capacity, or gas storage.

Gas Marketing Affiliate Personnel: An employee or other representative of the gas marketing affiliate that is involved in fulfilling the business purpose of the marketing affiliate. An officer or director of both NCNG and gas marketing affiliate shall not be considered gas marketing affiliate personnel unless that individual is directly involved in fulfilling the business purpose of the gas marketing affiliate.

Natural Gas Services: Natural gas sales and natural gas transportation regulated by the North Carolina Utilities Commission, the South Carolina Public Service Commission or the Federal Energy Regulatory Commission, and other related services, including, but not limited to, metering and billing.

NCNG: the public utility operations of North Carolina Natural Gas Corporation as defined in N.C.G.S. § 62-3.

NCNG Operating Personnel: An employee or other representative of NCNG that is involved in the acquisition, marketing, pricing, or scheduling of gas supply, interstate pipeline capacity, or gas storage facilities on behalf of NCNG. NCNG operating personnel also includes personnel involved in managing NCNG's facilities or responsible for determining which customers to curtail, or involved in selling [products and services to NCNG's customers eligible to purchase gas, products, and services from persons other than NCNG.

Non-affiliated Gas Marketing: an entity, not affiliated with NCNG or CP&L, engaged in the unregulated sale, arrangement, brokering or management of gas supply, pipeline capacity, or gas storage.

Nonpublic Utility Operations: All activities engaged in by CP&L and/or NCNG involving the sale of a good or service that are not regulated by the South Carolina Public Service Commission, or the North Carolina Public Utilities Commission, or the Federal Energy Regulatory Commission.

Shipper: A gas marketing affiliate, non-affiliated marketer, a municipal gas customer, or end-use of gas.

Similarly Situated: Possessing comparable characteristics, such as, the type and delivered price of alternative fuel used, gas curtailment priority, daily usage and daily load swing or relevant Standard Industrial Classification.

II. Code of Conduct

This Initial Code of Conduct, while not wholly inclusive or totally encompassing, establishes the minimum guidelines and rules that apply to transactions involving either or both CP&L and/or NCNG, and one or more of their affiliates and/or one or more of their nonpublic utility operations. This Initial Code of Conduct will become applicable on the date it is approved by the Commission.

A. GENERAL STANDARDS

1. Equal Treatment - CP&L and NCNG shall not show any preference to: customers of their affiliates; requests for service from affiliates; and/or customers of their nonpublic utility operations, as compared to non-affiliated entities and their customers.
2. Cross-subsidies involving either or both CP&L and/or NCNG, and one or more of their affiliates and/or one or more of their nonpublic utility operations are prohibited.
3. Separation - CP&L, NCNG, and their affiliates shall operate independently of each other (except for sharing of services under Section II.D.3. CP&L, NCNG, and each of their affiliates shall maintain separate books and records. CP&L's and NCNG's nonpublic utility operations shall maintain separate records to ensure appropriate cost allocations and any requirements of arm's length transactions. CP&L and its affiliates shall conduct business from physically separate offices located on different floors or in different buildings. However, CP&L and its affiliates may share offices to the extent necessary to perform those shared corporate functions permitted under Section II.D.3 of this Code of Conduct.
4. Disclosure - Upon request, CP&L shall provide electric Customer Information to NCNG, CP&L's affiliates and nonpublic utility operations under the same terms and conditions that such information is provided to non-affiliates. Upon request, NCNG shall provide natural gas Customer Information to CP&L, NCNG affiliates and nonpublic utility operation under the same terms and conditions that such information is provided to all non-affiliates. Customer Information shall not be disclosed to any person or company without the Customers' consent except to the extent provided for in Section II.D.3 If disclosed, it must be done with advance public notification, in a manner determined by the Commission to ensure that the opportunity to receive the disclosed information is made available to non-affiliates at the same time that it is made available to affiliates and/or nonpublic utility operations. Notwithstanding the prohibitions established by this subsection, NCNG may disclose Customer Information to CP&L without Customer consent and without making the information available to any other person or company in order to allow CP&L to perform billing services for

NCNG. Such Customer Information shall only be disclosed to those CP&L employees performing billing operations and employees in CP&L's Customer Service Department who are responsible for responding to customer inquiries concerning customer service and billing matters may access the information.

B. NONDISCRIMINATION AND INFORMATION STANDARDS

1. CP&L and NCNG shall process all similar requests for Electric Services and/or Natural Gas Services in the same timely manner, whether requested on behalf of an affiliate, nonpublic utility operations or non-affiliated entity. CP&L and NCNG shall apply the provisions of their tariffs equally to affiliates, nonpublic utility operations and non-affiliates.
2. CP&L will not represent to any Customer that any affiliate and/or nonpublic utility operation will receive any preference from CP&L relative to providing Electric Services over any unaffiliated service provider, nor will CP&L provide its affiliates in provision of Electric Services. NCNG will not represent to any Customer that any affiliate and/or nonpublic utility operation will receive any preference from NCNG relative to providing, nor will NCNG provide its affiliate and/or nonpublic utility operations with any preference over non-affiliates in provision of Natural Gas Services.
3. CP&L and NCNG shall not condition or otherwise tie the provision or terms of any Electric Services or Natural Gas Services to the purchasing of any goods or services from the other or from an affiliate and/or from their nonpublic utility operations.
4. When any CP&L and/or NCNG employee receives a request for information from or provides information to a Customer about an affiliate and/or nonpublic utility operation service, the employee must advise the Customer that such services may also be available from affiliated suppliers.

C. MARKETING STANDARDS

1. CP&L, NCNG, their affiliates and their nonpublic utility operations may engage in joint sales, joint sales calls, joint proposals and/or joint advertising, subject to any conditions or restrictions that the Commission may hereafter establish, provided CP&L and NCNG agree to engage in similar activities with non-affiliates under the same terms and conditions. However, CP&L, NCNG and gas marketing affiliate collectively may not engage in joint sales, joint sales call, joint proposals and/or joint advertising and NCNG operating personnel must not provide sales leads to its gas marketing affiliate. CP&L and/or NCNG shall post certain information regarding the joint marketing programs/calls on its internet web site at least 14 days prior to commencing a joint marketing arrangement and the information shall remain posted on the

web site for the duration of the arrangement. The information disclosed on the web site shall include a description and terms for the joint marketing arrangement. Posting of the terms for the joint marketing arrangement shall include an offer by CP&L and/or NCNG to engage in joint marketing on such terms with non-affiliates.

2. Affiliates may not use CP&L's and/or NCNG's name and/or logo in any communications unless a disclaimer is included that states the following:

- (a) "[Affiliate] is not the same company as [Utility], and [Affiliate] has separate management and separate employees;"
- (b) "[Affiliate] is not regulated by the South Carolina Public Service Commission or in any way sanctioned by the Commission;"
- (c) "there is no advantage to customers of [Utility] if they buy products or services from [Affiliate];" and
- (d) "a customer does not have to buy products or services from [Affiliate] in order to continue to receive the same safe and reliable electric (or natural gas) service from [utility]."

Nonpublic utility operations may not use CP&L's and/or NCNG's name and/or logo in any communications unless a disclaimer is included that states the following:

- (a) "[Nonpublic utility operation] is not part of the regulated services offered by [Utility] and is not any way sanctioned by the South Carolina Public Service Commission;"
- (b) "there is no advantage to customers of [Utility] if they buy products or services from [Nonpublic utility operation];" and
- (c) "a customer does not have to buy products or services from [Nonpublic utility operation] in order to continue to receive the same safe and reliable electric (or natural gas) service from [utility]."

The required disclaimer must be sized and displayed in a way that is commensurate with the name and/or logo so that the disclaimer is no smaller than the larger of one-half the size of the type the type that first displays the name and logo or the predominant type used in the communication.

3. Personnel of an affiliate or nonpublic utility operation shall not give the appearance that the affiliate or nonpublic utility operation s peaks on behalf of CP&L and/or NCNG.

4. Personnel of CP&L, NCNG, an affiliate or nonpublic utility operation shall not indicate to a third party that any advantage exists as the result of that third party dealing with an affiliate or nonpublic utility operation as compared with a non-affiliates.

D. COST ALLOCATION AND TRANSFER PRICING STANDARDS

1. As general guideline, with regard to the transfer prices charged for goods and services, including the use and/or transfer of personnel, exchanged between and among CP&L, NCNG, their affiliates and their nonpublic utility operations, the following conditions shall apply:
 - a) For untariffed goods and/or services provided by CP&L and/or NCNG to an affiliate and/or nonpublic utility operation, the transfer price shall be the higher of market value or fully distributed cost.
 - b) For goods and/or services provided by an affiliate and/or nonpublic utility operation to CP&L and/or nonpublic utility operation to CP&L and/or NCNG shall be the lower of market value or the affiliate's and/or nonpublic utility operation's fully distributed cost. If the public utility does not engage in competitive solicitation and instead obtains the goods and/or services from an affiliate and/or nonpublic utility operation, the public utility shall implement adequate safeguards to ensure utility customers receive service at the lowest cost in each case.
 - c) With the exception of gas supply and/or transportation, transaction between CP&L and NCNG for untariffed goods and/or services shall be priced at the lower of fully distributed costs or market value.
 - c) For gas sales and/or transportation service transactions between CP&L and NCNG, NCNG shall provide service to CP&L at the same price and terms that are made available to other similarly situated customers.
2. All permitted transaction between CP&L, NCNG, the affiliates, and nonpublic utility operations shall be recorded and accounted for in accordance with CP&L's cost allocation manual.
3. CP&L, NCNG, the affiliates and the nonpublic utility operations may use certain corporate services and functions on a joint basis. Such shared services shall be charged among CP&L, NCNG, the affiliates and nonpublic operations. Shared services be those proposed by CP&L on or before December 31, 1999, subject to approval by the Commission.

4. CP&L and NCNG may participate with each other in joint purchase of goods and services. All joint purchases, including leases, shall be priced in a manner that permits clear identification of CP&L's and NCNG's portions of such purchases or leases. CP&L and NCNG shall not engage in joint purchases with affiliates and/or nonpublic utility operations, unless specifically permitted in advance by Commission order upon a finding that it is in the best interest of ratepayers.
5. Any costs CP&L or NCNG incurs in assembling, compiling, preparing and/or furnishing requested customer information to an affiliate, nonpublic utility operation or non-affiliates shall be recovered from the requesting party pursuant to Section II.D.I of this Code of Conduct.
6. Any technology or trade secrets developed by CP&L and/or NCNG will not be transferred to any of CP&L's and/or NCNG's affiliates and/or nonpublic utility operations without just compensation from the affiliate and/or nonpublic utility operation, and the filing of notice with the Commission at least 60 days prior to the transfer.
7. CP&L and NCNG shall receive compensation from its affiliates and nonpublic utility operations for tangible benefits, if appropriate.

E. REGULATORY OVERSIGHT

1. S.C. Code Ann. 58-27-2090 (Supp. 1998), as amended shall apply.
2. The books and records and contracts of CP&L and NCNG, their affiliates and nonpublic utility operations shall be open for examination by the Commission and its staff, and the Consumer Advocate.
3. If NCNG supplies any of the Natural Gas Services used by CP&L to generate electricity, CP&L shall file an annual report with the Commission demonstrating that each purchase was prudent and the price was reasonable.
4. When requested, NCNG shall disclose on a confidential basis to non-affiliated electricity generators on its system and the Consumer Advocate the gas supply and transportation prices, characteristics, and other terms of service for gas deliveries to CP&L for electric generation.
5. All gas supply and/or transportation arrangements between NCNG and CP&L of more than two months shall be filed with the Commission in advance.

- F. COMPLAINT PROCEDURE** – CP&L and NCNG shall establish complaint procedures to resolve potential complaints that arise due to the relationship of CP&L and/or NCNG with their affiliates and/or nonpublic utility operations. These complaint procedures do not affect a complainant's right to file a formal complaint

with or otherwise address questions to the Commission. The complaint procedures shall provide for the following:

1. Verbal and written complaints shall be referred to a designated representative of NCNG and/or CP&L.
2. The designated representative shall provide written notification to the complainant within 15 days that the complaint has been received.
3. CP&L and/or NCNG shall investigate the complaint and communicate the results of the investigation to the complainant within 60 days of receiving the complaint.
4. CP&L and/or NCNG shall maintain a log of complaints and related records for inspection by the Commission and its staff.
5. If the complainant is not satisfied, CP&L and/or NCNG shall inform the Commission and its Staff of the complaint.

G. UTILITY BILLING FORMAT– To the extent CP&L includes on a customer's electricity bill charges for Natural Gas Services and/or unregulated services, such charges shall be separated from all regulated Electricity Services charges and contain the following introductory notice in bold print: **Your natural gas service may not be terminated for failure to pay for your electricity serve and you electricity may not be terminated for failure to pay you natural gas service. Neither Your regulated Gas Services, Nor Your Regulated Electric Services Can be Terminated For Failure to Pay For the Following Unregulated Services.**

H. NATURAL GAS/ELECTRICITY COMPETITION – CP&L and NCNG shall continue to compete to serve those retail customer needs that can be met by both electricity and natural gas. If the electric generation industry is deregulated, CP&L will not promote one fuel over the other.

I. NATURAL GAS MARKETING STANDARDS

1. NCNG shall treat similarly situated shippers in the same manner with respect to the delivery of gas on distribution facilities, contract terms, the scheduling of gas supplies, balancing provisions, and allocation of gas supplies and capacity at city gate stations.
2. All NCNG information pertaining to interstate pipeline transportation, storage, distribution, or gas supply that is provided to a gas marketing affiliate shall be made available to all shippers on a contemporaneous, nondiscriminatory and non-preferential basis by posting the information on NCNG's internet web site and provided in a written form upon the request of a shipper. Aggregate customer information and market data made available

to shippers shall be made available on a similar basis.

3. NCNG shall not disclose information provided by non-affiliated marketers and customers to its marketing affiliate, unless such parties specifically authorize disclosure of the information.
4. A gas marketing affiliate shall function independently of NCNG and gas marketing affiliate personnel must be located in a facility that is physically separate from that used by the NCNG operating personnel performing similar functions.
5. NCNG operating personnel may not perform any of the following functions on behalf of a gas marketing affiliate:
 - a) Purchase gas, pipeline capacity or storage capacity.
 - b) Market or sell gas and related services.
 - c) Price or administer products and services.
 - d) Hire and/or train marketing affiliate personnel.
 - e) Offer consulting services regarding gas functions.
6. An individual may be an officer or director of both NCNG and a gas marketing affiliate provided that the individual does not obtain or use knowledge of market-sensitive information for more than one of the entities. NCNG shall post on its internet web site the identity, job title and responsibilities for each officer or director that falls within the definition of NCNG operating personnel.
7. NCNG shall post its criteria for evaluating proposals from shippers on its internet web site. NCNG shall not give one shipper any form of preference over other similarly situated shippers in matters relating to assignment, release, or other transfer of capacity rights on interstate pipeline systems.
8. NCNG shall post on its internet web site a current list of contact persons and telephone numbers of all gas marketers that are active on its system.

Exhibit 2

South Carolina Regulatory Conditions

- (1) All costs of the merger, and all direct and indirect corporate costs increases, if any, attributable to the merger, will be excluded from CP&L's and NCNG's utility accounts, and also will be excluded from utility costs, for all purposes that affect CP&L's retail electric rates and charges and NCNG's natural gas rates and charges. For purposes of this condition, the term "corporate cost increases" is defined as costs in excess of the level that CP&L and NCNG would have incurred using prudent business judgment had the merger not occurred.
- (2) CP&L will file by December 31, 1999 with the Commission an initial affiliate transaction and cost allocation manual subject to approval by the Commission. A copy shall also be provided to the Consumer Advocate. The manual will incorporate this Initial Code of Conduct and South Carolina Regulatory Conditions and shall describe how all direct, indirect, and other costs will be charged to capital projects, non-utility operations and divisions, and subsidiaries. In that connection, CP&L and NCNG will perform a detailed review of the common costs to be allocated and allocation factors to be used. On December 31, 1999, CP&L and NCNG shall provide a list of items considered to be shared services and the basis for that determination. The manual will also identify and describe each of CP&L's and NCNG's affiliates and appropriate cost allocation and transfer pricing rules for transaction with its affiliates. CP&L and NCNG also shall file an annual report of affiliated transactions with the Commission. The first report on affiliated transactions shall be filed on March 1, 2000. Subject to future orders of the Commission, all of CP&L's and NCNG's administrative and general expenses shall be allocated consistent with past practices by either direct assignment or allocation or by such other means as the Commission determines are necessary to assure an appropriately independent relationship between the regulated and non-regulated business segments of the merged company so that no cost increases attributable to the merger are reflected in electric or gas operations. Transactions between each utility's regulated operations and its non-utility affiliated and operations shall be reviewed regularly by its internal auditors. All audit reports and workpapers shall be available for review by the Commission Staff and the Consumer Advocate.
- (3) CP&L will file with the Commission by December 31, 1999, an electric cost of service manual which delineates and describes the steps taken to functionalize, classify, directly assign, and allocate revenues, O&M expenses, depreciation, taxes, and plant for input onto the electric cost service computer program. A copy shall also be provided to the Consumer Advocate.

- (4) An amount equal to CP&L's net equity investment in NCNG (i.e., the amount initially recorded as net investment in NCNG in NARUC Account 123, plus future earnings of NCNG less dividends paid by NCNG) will be eliminated from CP&L's unconsolidated capital structure for all purposes that affect its South Carolina retail rates and charges.
- (5) Both companies shall keep their respective accounting books and records in a manner that will allow all components of the cost of capital to be identified easily and clearly for CP&L and NCNG on separate bases.
- (6) To the extent cost rates of CP&L's or NCNG's long-term debt (more than one year), short-term debt (one year or less) or preferred stock are or have been adversely affected by the merger, through a downgrade or otherwise, a replacement cost rate to remove the effect will be used for all purposes affecting CP&L's South Carolina retail rates and charges and NCNG's rates and charges. This replacement cost rate will be applicable to all financings, refundings, and refinancings. This procedure relating to a replacement cost calculation will be determined. This condition does not indicate a preference by any party for any specific debt rating or preferred stock rating for CP&L or NCNG on current or prospective bases.
- (7) In accordance with South Carolina law, CP&L and NCNG will continue to provide the Commission and its Staff and the Consumer Advocate access to the books and records of CP&L and NCNG, their affiliates and non-utility operations.
- (8) The revenues from certain CP&L electric utility wholesale transactions are (a) allocated in part to CP&L's South Carolina retail operations in CP&L's South Carolina retail cost of service study and/or (b) treated in part as a credit to jurisdictional fuel expenses in CP&L's annual South Carolina retail fuel proceedings. To the extent commitments to CP&L's wholesale customers relating to the merger are made by or imposed upon CP&L, the effects of which serve to increase the South Carolina retail cost of service and/or South Carolina retail fuel costs under reasonable cost allocation practices traditionally followed by CP&L and approved by the Commission, those effects shall not be recognized for South Carolina retail cost of service or ratemaking purposes.
- (9) These conditions do not supersede any orders or directives that have been or will be issued by the Commission regarding the issuance of specific securities by CP&L. As with securities issuances prior to the announcement of the merger, the issuance of securities after the announcement of the merger does not restrict the Commission's right to review, and if deemed appropriate, adjust CP&L's cost of capital for ratemaking purposes for the effect of these securities.

- (10) Long-term debt (of more than one year duration) issued by CP&L will be identified as clearly as possible with either (1) the assets that are or will be utilized to provide service to regulated utility customers; or (2) the existing debt to be replaced with the new debt issuance.
- (11) The cost of capital conditions also will apply to CP&L's determinations of their maximum allowable AFUDC rates, the rates of return applied to any of CP&L's deferral accounts and regulatory assets and liabilities that accrue a return, and any other component of CP&L's cost of service impacted by the cost of debt and/or preferred stock.
- (12) The cost of capital conditions included elsewhere herein shall also apply, for South Carolina retail cost of service/ ratemaking purposes, in all instances in which the cost of capital affects the determination of Harris Purchased Capacity and Energy Costs calculated pursuant to CP&L's Power Coordination Agreement (PCA) with the North Carolina Eastern Municipal Power Agency (NCEMPA).
- (13) For South Carolina electric retail cost of service/ratemaking purposes, wherever such costs would affect the determination of Harris Purchased Capacity and Energy Costs calculated pursuant to the PCA with the NCEMPA -
 - (a) all costs of the merger, and all direct and indirect corporate cost increases, if any, attributable to the merger, shall be excluded from CP&L's utility accounts and/or costs. For purposes of this condition, the term "corporate cost increases" is defined as costs in excess of the level that CP&L would have incurred on a stand-alone basis.
 - (b) subject to future orders of the Commission, all administrative and general expenses shall be allocated consistent with past practices by either direct assignments of allocation so that, for South Carolina electric retail cost of service/ratemaking purposes, no cost increases attributable to the merger are reflected in the determination of Harris Purchased Capacity and Energy costs.
- (14) CP&L, NCNG, and their affiliates shall bound by the Code of Conduct approved by the Commission. The Code shall be considered the minimum conditions to which the merged company is agreeing and shall not preclude the Commission from amending the Code later to incorporate additional conditions. If necessary, the Code will be modified if there is a change in the merged company's organizational structure or if other changes occur that warrant such amendments.
- (15) Any acquisition adjustment that results from the business combination of CP&L and NCNG shall be treated for accounting and ratemaking purposes so that it does not affect CP&L's retail electric rates and charges and costs.

- (16) None of CP&L's base retail electric rates will be increased from the date of an order approving the merger until December 21, 2004, except for the following reasons: (1) annual fuel cost adjustment proceedings pursuant to S.C. Code Ann. § 58-27-865; (2) to reflect the financial impact of governmental action (legislative, executive or regulatory) having a substantial specific impact on the electric industry generally or on a segment thereof that includes CP&L, including but not limited to major expenditures for environmental compliance; or (3) to reflect the financial impact of major expenditures associated with *force majeure*. For purposes of this condition and condition number 17, the term *force majeure* means an occurrence that is beyond the control of CP&L and not attributable to either's fault or negligence. Without limiting the foregoing, *force majeure* includes acts of nature, like earthquakes, cyclones, rain, tornadoes, hurricanes, flood, fire, acts of public enemy, war, riots, strikes, mobilization, labor disputes, civil disorders, injunctions-intervention-acts, or failures or refusals to act by government authority; and other similar occurrences beyond the control of the party declaring force majeure which such party is unable to prevent by exercising reasonable diligence. To qualify as an exception, a *force majeure* event must be reported within 15 working days of its occurrence.

Any request pursuant to these exceptions will include a specification of the reasons for the request and an accurate quantification of the financial impact of the request.

In addition, CP&L will not file for any cost deferral from the date of an order approving the merger until after December 31, 2004, except for major expenditures to restore or replace property damaged or destroyed by *force majeure*.

- (17) It is assumed, based on representations made by CP&L, that the merger will not cause CP&L to become a registered holding company under the Public Utility Holding Company Act of 1935 (PUHCA). If CP&L or its affiliates engage in acquisitions or other actions (such as, but not limited to, the creation of a parent of CP&L) after the merger that create the possibility of CP&L (or parent) becoming a registered holding company under PUHCA, CP&L will notify the Commission at least 30 days prior to filing with the Securities and Exchange Commission (SEC) any application necessary to obtain authorization to take such actions. CP&L will bear the full risk of any preemptive effects of the Federal Power Act and/or PUHCA. The previous sentence includes, but it not limited to, an agreement by CP&L to take all such actions as the Commission finds are necessary and appropriate to hold South Carolina retail ratepayers harmless from rate increases, foregone opportunities for rate decreases or other effects of such preemption, including filing with and obtaining approval from the SEC or the Federal Energy Regulatory Commission for such commitments as the Commission deems necessary to prevent such preemptive effects.

- (18) CP&L will continue to take steps designed to implement and further its commitment to providing superior electric service to South Carolina retail customers following the merger. CP&L shall provide to the Commission Staff and Consumer Advocate by October 31, 1999, the Service Quality Indices that it currently uses and believes are appropriate for measuring service quality. CP&L will work with the Commission Staff and Consumer Advocate to ensure that these indices are the most appropriate and to revise them if and when such revisions are necessary.
- (19) CP&L will file its current ten-year plan for new or expanded gas pipeline facilities with the Commission by October 31, 1999, and updates shall be filed with the Commission by October 31 every year thereafter. Copies shall also be provided to the Consumer Advocate. Such plans shall incorporate details regarding CP&L's electric generation plans and the pipeline routing and specifications required to provide gas and transportation service to each electric generating plant. The filing shall also describe each inquiry received from a party interested in locating gas-fired electric generation in South Carolina and report on the status of each inquiry (confidentially if necessary). To the extent substantial changes occur in any plans or proposals to expand or extend facilities, notice of such changes shall be filed with the Commission immediately.

To the extent customers want to have input into the pipeline expansion planning process, NCNG shall develop a process to encourage such input on an on-going basis.

- (20) Neither CP&L, NCNG, nor an affiliate will begin the construction of natural gas facilities, including a pipeline, to serve an electric generating plant without filing a notice of intent with the Commission. The notice of intent shall be filed well in advance of any construction-related activity, including the acquisition of any rights-of-way. Any application for certificate of public convenience and necessity (CPCN) filed with the Commission by CP&L or an affiliate shall incorporate details with respect to the routing of any new or expanded gas pipeline or other facilities required to serve the proposed electric generating plant and details about any proposed pipeline routing and specifications related to any new or expanded natural gas facilities needed to provide gas and/or transportation service to the proposed electric generating plant.
- (21) CP&L will determine the appropriate self-built or purchased power resources to be used to provide future generating capacity and energy to CP&L's electric customers, including the siting considered appropriate for such resources, on the basis of the benefits and costs of such siting and resources specifically to CP&L's electric customers.
- (22) CP&L and NCNG shall utilize competitive solicitation procedures to determine future long-term sources of interstate pipeline capacity and supply. The determination of the appropriate source(s) for the interstate pipeline capacity and

supply shall be made by CP&L on the basis of the benefits and costs of such source(s) specifically to CP&L's electric customers. The determination of the appropriate source(s) for the interstate pipeline capacity and supply shall be made by NCNG on the basis of the benefits and costs of such source(s) specifically to NCNG's gas customers, including electric power generating customers. If a conflict should occur among the CP&L and NCNG standards, the conflict shall be resolved by the Commission on a case-by-case basis.

- (23) CP&L shall use its best efforts to promote economic development on South Carolina.
- (24) CP&L shall not recover from ratepayers, the margins lost as a result of bypass by an interstate gas pipeline in which CP&L or any affiliate has an ownership interest.
- (25) CP&L shall not attempt to collect from, or impute, allocate, or assign to its South Carolina operations, any environmental remediation costs relating to any manufactured gas plants or other properties presently or previously owned or to be owned by NCNG.
- (26) CP&L shall determine the value of all savings resulting from the merger and file a report with the Commission detailing any savings by March 1, 2000. A copy shall also be provided to the Consumer Advocate.
- (27) CP&L shall identify any potential electric revenue erosion anticipated to result from the expansion of gas service by NCNG, and exclude such erosion from any stranded cost estimates. CP&L shall also incorporate all savings resulting from the merger in all of its stranded cost estimates. In other words it is expected that this merger will not increase CP&L's stranded cost estimates, but should substantially reduce CP&L's stranded cost estimates.
- (28) CP&L shall notify the Commission of each new subsidiary. The notification shall include an overview of each new subsidiary's intended type of operation and explain the expected impact of each new subsidiary's operation on CP&L's South Carolina rates, charges and costs, and the appropriate cost allocation and transfer pricing rules.
- (29) CP&L shall notify the Commission of any joint ventures and joint financial arrangements entered into by it or any of its affiliates. The notification shall include an overview of each new joint venture's intended operations and explain the expected impact on CP&L's South Carolina rates, charges and costs, and the appropriate cost allocation and transfer pricing rules.

- (30) CP&L shall issue a policy statement to all employees which provides for the avoidances of any cross-subsidy, and any affiliate preference, consistent with S.C. Code Ann. 58-27-2090 (Supp. 1998), as amended. The original, and any updates to this policy statement shall be filed with the Commission and a copy provided to the Consumer Advocate.

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